

## **ANNEX II**

### **MUTUAL ACCEPTANCE OF TEST AND EVALUATION**

#### **Introduction**

1. In furtherance of the principles governing reciprocal defense purchasing, as defined in the MOU and in accordance with the Implementing Procedures for the MOU (Annex I thereto), representatives of the DoD and MoD have engaged in discussions and presentations on Test and Evaluation (T&E) in defense procurement. The discussions were aimed at facilitating the implementation of the MOU by:

- a. Bringing about a thorough, mutual understanding of the Governments' policies, organizations and procedures for T&E.
- b. Identifying the main differences between the Governments' organizations and procedures for T&E.
- c. Determining the actions required to overcome any difficulties arising from the identified differences, in order to assure complete mutual acceptability of T&E procedures.
- d. Using mutually developed common International test Operations Procedures (ITOPs).

2. The purpose of this Annex, is to record the concurrence reached by the Governments concerning the mutual acceptability of their respective T&E procedures for those systems that are developed in one country and are candidates for procurement by the other. Two categories of defense systems are considered:

- a. Those still under development.
- b. Those for which development is complete.

#### **Points of Concurrence**

3. The objective is to avoid redundant testing. Neither Government will duplicate tests where acceptable data is available from the other Government's official test program.

4. Existing T&E organizations and procedures of both Governments are adequate to satisfy the purposes of the MOU. Differences are not such as to justify changes being made to the present procedures of either Government.

5. To achieve a more widespread understanding of the Governments' T&E organizations and procedures in the DoD, in the MoD, and in the Industries of both countries, the Governments will produce guidance information necessary to meet the purpose of this Annex, including:

a. The relationship between their respective T&E organizations and procedures.

b. A DoD/MoD communications matrix for initial contacts.

6. The focal point for all T&E aspects of procurement relating to development testing will be the US Program Manager or the UK Project Manager for the equipment being offered. For operational testing aspects, it will be the applicable US Service's independent operational test agency and in the UK, the Project Manager.

7. Test data obtained through the use of ITOPs by one country will generally be accepted by the other country.

#### **Mutual Acceptance Procedures**

8. All proposals for consideration of equipment of one country for procurement by the other will require a review of T&E data reflecting test conditions, test results and success criteria on a case-by-case basis. The following procedures will therefore be observed in all procurement considerations.

a. To facilitate the exchange of T&E data, a common documentation format will be adopted. This format will be a jointly developed or jointly decided upon existing format.

b. For systems under development, the offering Government will invite participation by the other early in the T&E program. Should the other Government not choose to participate in the testing, the offering Government, subject to its laws, established policies, procedures and regulations, and subject to privately owned proprietary rights, will arrange for the release to the other of

information necessary for the purpose of such T&E.

c. For systems for which development is complete, the offering Government will ensure, subject to its laws, established policies, procedures and regulations, and subject to privately owned proprietary rights, that all pertinent T&E data is made available to the other.

d. Should one Government adjudge the T&E which has been completed or planned by the other to be inadequate for its procurement procedures, the Governments will jointly determine any additional testing to be carried out. Such additional testing may be conducted by either country or jointly by both countries as jointly decided. In addition, before such additional testing commences, concurrence will be reached by the Governments regarding payment of costs, allocation of resources, scheduling and the evaluation criteria which will apply.

e. When either Government releases T&E data to the other, it is understood that, in the absence of any specific understanding to the contrary, such data is made available in confidence to the receiving Government for the purpose of information and evaluation within such Government and for no other use. Such data will be marked and handled in accordance with Section 5 of the MOU.

9. In any case where concurrence cannot be reached between the focal points or their Service superiors concerning the acceptability of T&E, or when it is felt that adequate data and information on T&E have not been provided, the matter will be referred to the appropriate higher authority. For the DoD this will be the Director, Operational Test and Evaluation, and for the MOD this will be the Defence Test and Evaluation Group Team Leader.

## **ANNEX III**

### **RECIPROCAL AUDITS OF CONTRACTS AND SUBCONTRACTS**

#### **I. INTRODUCTION**

This Annex sets forth the provisions and procedures under which the Governments, recognizing the need for reciprocity in the arrangements and the need for mutual benefit, will provide one another with contract audit services upon request in support of defense contracts and subcontracts, and Foreign Military Sales (FMS) contracts, to which the US/UK Reciprocal Defense Procurement MOU applies.

#### **II. GENERAL PRINCIPLES**

The objective of this Annex is to provide effective, efficient, impartial, and timely audit services to the cognizant contracting officers of the Governments. Either Government may request audit services from the other Government. Each Government will perform the audits requested by the other Government or otherwise required by this Annex, subject to the relevant laws of either Government. By arrangement between the Governments, the requesting Government may elect to perform an audit in circumstances where the other Government is unable to meet the request.

Contract audit reports will be advisory. The purchasing Government will retain authority and responsibility for negotiating acceptable prices and contract settlements with contractors. Purchases by HMG under the FMS Program will be handled under the USG FMS procedures in existence at the time of acceptance of the FMS agreement.

There are many similarities between the USG Contract Cost Principles and Procedures set forth in the Federal Acquisition Regulation (FAR) Part 31 and the "Accounting Conventions for Non-Competitive Government Contracts", which are applicable in the UK. Nevertheless, when performing an audit for the USG, HMG will identify all costs which are expressly unallowable under the versions of the FAR Part 31 and Defense FAR Supplement (DFARS) Part 231 applicable to the proposal, contract, or other matter being audited. HMG will also apply the FAR Part 31 and DFARS Part 231 general principles of allocability, allowability,

and reasonableness. Aside from UK companies that qualify for exemption from FAR Part 30 and DFARS Part 230 cost accounting standards (except for compliance with CAS 401 and 402), by reason of filing an acceptable Disclosure Statement, UK companies will be audited for compliance with applicable FAR Part 30 and DFARS Part 230 cost accounting standards. Except as provided above, generally accepted HMG audit methods and practices will be used by HMG in performing audits for the USG. For forward pricing audit reviews, both the financial and the technical elements will be evaluated and reported, unless a limited audit scope is requested.

HMG will accept audits performed by the USG which use FAR Part 31 and DFARS Part 231 cost principles and FAR Part 30 and DFARS Part 230 cost accounting standards, subject to review in the event of changes in the cost principles or cost accounting standards.

Neither Government will duplicate or review the work of the other except in regards the provision of feedback to the performing Government on the utility and clarity of audit reports. The Governments will hold periodic discussions to evaluate the operational effectiveness of the reciprocal audit arrangement. Each Government will evaluate its compliance with this audit Annex in accordance with the MOU provisions and timescales. A copy of the results of each such review will be provided to the other Government.

Solicitations, contracts and subcontracts will contain adequate provisions to enable the Governments to act for and on behalf of one another under this Annex and will authorize access to contractors' facilities and records as necessary.

Nothing in this Annex is to be construed to limit a purchasing Government's rights or remedies, including access to contractor's records, in accordance with the terms of the contract or subcontract as required by the law or policy of the purchasing Government.

### III. SCOPE OF AUDIT ANNEX

This Annex encompasses audits in support of contracts and subcontracts for defense equipment and services, and FMS contracts, to which this MOU applies. It does not cover audits for architecture and engineering, construction, base support, operation and maintenance, or banking services, or contractors

solely in the business of supporting U.S. presence in the UK. For purposes of this Annex, contract audit services will include the following types of audits:

Forward Pricing Audits: Review of proposals submitted in contemplation of a contract award or a contract modification, or in relation to negotiating a price of an unpriced contract based on estimated costs, to determine the allocability, allowability, and reasonableness of each proposed cost element.

Accounting System Audits: Review of contractor accounting records, procedures, and systems to determine their accuracy, currency, completeness, and compliance with contract requirements.

Estimating System Audits: Evaluation of cost estimating systems.

Post Award Audits: Verification after contract award of the currency, accuracy, and completeness of cost or pricing data submitted to the purchasing Government as of the completion of negotiations. Post award audits will be performed automatically, without a request, by both Governments whenever required under the purchasing Government's policies and on a sample basis for non-mandatory cases. In addition, additional post award audits can be requested by either Government. Post award audits will be performed under the provisions of this Annex provided that the requesting Government has made available to the performing Government all data regarding the price negotiation and agreement.

Reimbursement Vouchers Audits: Verification of payment vouchers and claims for interim payments submitted under cost reimbursement contracts or other contracts with cost reimbursement features (e.g., material reimbursement), recommending cost disallowances when appropriate.

Audits of Disclosed Accounting Practices: Verification of contractor compliance with disclosed accounting practices and contractual accounting requirements.

Overhead Cost Audits: Evaluation of overhead cost records prior to overhead settlements.

Termination Audits: Evaluation of overhead termination

costs and contract cost records prior to termination settlements.

Final Pricing Audits: Review and verification of actual costs incurred in the performance of cost reimbursement and fixed price incentive contracts for purposes of establishing the final cost or price.

Post Costing Audits: For relevant contracts placed by the UK, comparison and analysis, after contract completion, of out-turn, i.e., incurred, costs as against estimated costs used as a basis for pricing.

Other: Audit services considered necessary and requested by contracting country.

Both Governments will use, when appropriate, audit work already carried out by the performing Government for its own purposes in order to satisfy the requirements of the requesting Government.

Requests for audit services which fall below the current value threshold adopted by the requesting Government will only be accepted by the performing Government if adequate written justification of the need for the audit is provided.

#### IV. PROCEDURES

Request for contract audit services in the UK will be sent with a copy of the contractor's proposal (if applicable) using air mail, telephone facsimile or by e-mail to:

Defense Procurement Agency  
Pricing and Forecasting Group  
ATTN: PFG MOU Audit/Policy  
LARCH 1A, #2102  
MOD ABBEY WOOD  
BRISTOL BS34 8JH  
UNITED KINGDOM

Tel: 011 44-117-91-34123  
Fax: 011 44-117-91-33965  
E-mail: PFGAccSpt-AC@DPA.MOD.UK

Request for contract audit services in the US will be sent

with a copy of the contractor's proposal (if applicable) using air mail, telephonic facsimile or by e-mail to:

DoD Central Control Point  
Defense Contract Management Agency  
ATTN: DCMA-FBR  
6350 Walker Lane, Suite 300  
Alexandria, VA 22310-3241  
USA

Tel: 703-428-1327  
Fax: 703-428-1505  
E-mail: dodccp@dcma.mil

Requests for audits will specify:

- i. The type of audit services needed.
- ii. The contractor's name and address.
- iii. The subcontractor's name and address (if applicable).
- iv. The proposal reference and value (if applicable).
- v. Audit coverage required including any items requiring special review.
- vi. The calendar date (not the number days after receipt of audit request) that the audit report is needed.
- vii. A contact name, telephone number, facsimile number, and e-mail address.

Requests will be acknowledged via telephonic facsimile or e-mail by the performing Government and a point of contact; telephone number, facsimile number, and e-mail address will be provided.

Each Government will establish the following procedures:

- i. Every audit report will identify the senior manager responsible for the audit as a liaison person and his or her telephone number. This senior manager will assist in obtaining clarifications of audit requests or audit reports whenever necessary. The senior manager will also assist in resolving problems with the timeliness, content, or quality



of audit reports.

ii. When difficulties cannot be resolved between the requesting officer and the identified senior manager of the performing Government, the issue will be escalated to successive levels of management.

iii. Each Government will appoint a central liaison officer for the purpose of addressing matters of general audit policy and procedure.

Each Government will provide audit reports in a timely manner. Audit reports submitted in accordance with the requested due dates, are timely. The particular features of each audit will influence the time needed to complete the audit, and each request should include the contractor proposal or a proposal summary schedule. In respect of audit of forward pricing proposals, requested due dates should not generally be set at less than 45 days from the date of receipt of the audit request or upon receipt of an acceptable proposal for audit, whichever is the latest. In special circumstances, requested due dates may be set at less than 45 days by arrangement between the Governments.

If the due date specified by the requesting Government cannot be met, the performing Government will contact the point of contact identified in the audit request to explain the reasons for the delay. If the failure to meet the requested due date is caused by external factors, not within the control of the Government performing the audit (such as not obtaining necessary cost data from a contractor), the purchasing Government will attempt to assist in resolving the problem and grant reasonable extensions as appropriate. If the inability to meet the requested due date is caused by action or inaction of the performing Government, the issue will be escalated to successive levels of management and the audit liaison person.

The Governments will provide each other with access to all available information concerning contractor cost estimating systems and disclosed accounting practices when needed to support contract negotiations or enforcement. Contracts requiring the disclosure of accounting practices will normally authorize contractors to file such disclosures with their own Governments. In the US, the files will be maintained by the office administering the contracts. In the UK, the files will be maintained by the audit agency section responsible for

auditing the contractor concerned.

In order to facilitate periodic appraisal of this Annex, both Governments consent to maintain a list of all audits performed for the other, identifying the specific office that requested the audit.

#### V. CONTENT OF AUDIT REPORTS

In general, the Governments will endeavor to provide each other with audit reports that reflect the scope and depth normally provided under their respective national arrangements. The level of detail to be provided in forward pricing audits will be sufficient to determine adequately the fairness and reasonableness of the cost and/or price proposal and good value for money.

All audit reports will describe the type, scope, depth of the evaluation performed, and a point of contact with a telephone number. The audit reports will describe what was reviewed or evaluated, the methodology used to perform the review, findings of the review, recommendations of the auditor, and the basis for the recommendations. The audit report will address any areas that were specifically requested for review. Each contract or subcontract audit performed will include the appropriate steps to evaluate for unallowable costs and identify any unallowable costs. The audit report should identify the extent to which issues raised by the auditor were discussed with the contractor. Supporting evaluations by technical and other specialists will be included in the reports as appropriate. In the case of audits performed for the US by the UK, normal practice will involve both the accountancy and cost engineering personnel of the UK audit agency. The purchasing Government may request additional clarifications or supporting data, if necessary, and will have the final authority to determine when the information provided is adequate for its purposes.

For forward pricing audits, the reports will, for each element of proposed cost, identify: the offeror's proposed cost; the basis for the proposed cost (which should include, subject to respective national laws, regulations, established policies, and procedures, the years over which the costs fall, rates, labor costs/hours, materials, subcontracts, allowances, and contingencies); how the auditor evaluated it; any recommended exceptions (questioned costs); and rationale supporting the recommended exceptions (questioned costs). The

audit report will make recommendations, subject to Section VI below, and provide information to a level of detail sufficient for the purchasing Government to determine adequately the fairness and reasonableness of the proposed costs and hours and to permit it to develop and justify its negotiation position. The audit will verify, and the audit report will state, that the proposed rates are in line with the forward pricing rate agreement agreed with the contractor when carrying out Defense work for their respective Governments.

#### VI. PROTECTION OF INFORMATION

Every audit report will contain criteria and qualifications regarding the release of the report which must be strictly observed by the requesting Government. No privileged or confidential, commercial or financial information contained in a report will be disclosed to third parties other than the Governments without the express consent of the authorized officers of both Governments and the audited contractor. However, the contracting officer will normally release a summary of the results of audits of subcontractors to higher tier contractors for negotiation purposes. This summary will exclude material which is commercially confidential to the audited subcontractor. Data obtained through the implementation of this Annex will receive the same protection against unauthorized disclosure as it would normally receive under the laws and rules of the Government which possesses it.

#### VII. CHARGES

Services will be provided under this Annex without charge provided that a joint review of the services, in accordance with the MOU provisions and timescales, indicates that equitable reciprocity is being maintained. After such joint review either Government may propose the introduction of charges.

#### **ANNEX IV**

##### **LOGISTICS SUPPORT OF DEFENSE EQUIPMENT**

In implementing Section 2, paragraph 2.2, of the Reciprocal Defense Procurement MOU, the Governments will be governed by the following:

1. When developing or procuring equipment, the Governments will decide upon the basis for joint follow-on logistics support in areas such as configuration control, interchangeability of spare parts/components, maintenance, conversion, storage and spare parts provisioning, etc.

2. Arrangements and procedures will be established concerning follow-on logistics support and other forms of logistics cooperation, e.g., joint utilization of facilities.

3. In the contracting procedure for logistics support, paragraph 2.4.8 of Section 2 of the MOU will apply.

4. The Governments will issue directives and guidelines to their respective armament and logistics agencies to achieve their described goals of the MOU.

## **ANNEX V**

### **RECIPROCAL GOVERNMENT QUALITY ASSURANCE**

#### **1. Scope**

This Annex sets forth the provisions under which each Government, in its country, will provide the other Government with Government Quality Assurance (GQA) services in support of defense contracts and subcontracts to which the MOU applies. The services exchanged under the provisions of this Annex are limited to GQA services.

#### **2. Process**

GQA services will be requested and performed in accordance with the provisions of Allied Quality Assurance Publication (AQAP) 2070, NATO Mutual Government Quality Assurance (GQA) Process, and NATO Standardization Agreement (STANAG) 4107, Mutual Acceptance of Government Quality Assurance and Usage of the Allied Quality Assurance Publications. For the purposes of this Annex, the process includes, but is not limited by, the U.S. reservations identified in STANAG 4107.

In order to ensure the prompt processing and management of each country's requests for GQA services, the requests will be sent directly, and electronically where possible, to the Government's focal point identified in STANAG 4107, Annex A. Each focal point is responsible for directing the request for GQA to the appropriate national organization responsible for the performance of the GQA services.

#### **3. Charges**

GQA services exchanged under the provisions of this Annex will be provided free of charge. In the event of unusually heavy costs being incurred appropriate charges may be negotiated.

The expenses for product expended will be borne by the contracting parties.

#### **4. Review**

When necessary, a review of the services exchanged under this Annex may be initiated by either Government to ensure the provisions of this Annex continue to be effectively implemented and continue to meet the needs of the Governments.

The national GQA organizations are responsible for managing and continuously improving their implementation of the Mutual GQA process.

#### **5. Protection of Information**

Information and/or data generated as a result of the GQA services is shared between the Government organizations involved in the GQA process in accordance with the provisions of AQAP-2070. All other non-GQA information or data obtained through implementation of this Annex will be protected in accordance with Section 5 of the MOU.